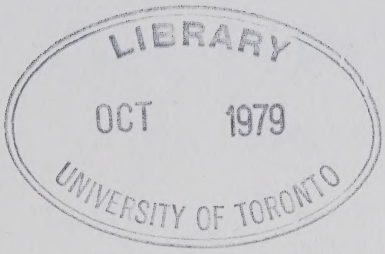
Canada. Standing Committee on Banking and Commerce
Minutes of Proceedings and Evidence. No.5

1958



HOUSE OF COMMONS

First Session—Twenty-fourth Parliament

1958

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: C. A. CATHERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Bill S-10—An Act to amend the Loan Companies Act,
Bill S-11—An Act to amend the Trust Companies Act,
including Fourth Report to the House thereon.

TUESDAY, AUGUST 19, 1958.

WITNESS

Mr. K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

61234-1—1

STANDING COMMITTEE ON BANKING AND COMMERCE

Chairman: C. A. Cathers, Esq.,

Vice-Chairman: Yvon Tassé, Esq.,

and Messrs.

Allard	Horner (*The Battlefords*)	Morton
Allmark	Horner (*Jasper-Edson*)	Nugent
Asselin	*Howard	Pallett
Benidickson	Jones	Pascoe
Brassard (*Chicoutimi*)	Jung	Pickersgill
Cardin	Keays	Regier
Chevrier	Lockyer	Robichaud
Chown	MacLean	Rowe
Coates	(*Winnipeg N. Centre*)	Rynard
Creaghan	Macnaughton	Southam
Crestohl	Macquarrie	Taylor
Deschambault	MacRae	Thomas
Drysdale	Martel	Thrasher
Dumas	Martin (*Essex East*)	Vivian
Flynn	McIlraith	White
Fraser	More	
Gour	Morris	

Antoine Chasse,
Clerk of the Committee

* Replaced Mr. Winch on August 19th.

ORDERS OF REFERENCE

WEDNESDAY, August 13, 1958.

Ordered,—That the following Bills be referred to the Standing Committee on Banking and Commerce:

Bill No. S-10, An Act to amend the Loan Companies Act.

Bill No. S-11, An Act to amend the Trust Companies Act.

SATURDAY, August 15, 1958.

Ordered,—That the name of Mr. Howard be substituted for that of Mr. Winch on the Standing Committee on Banking and Commerce.

LEON J. RAYMOND,
Clerk of the House.

61234-1—1½

REPORT TO THE HOUSE

TUESDAY, August 19, 1958.

The Standing Committee on Banking and Commerce has the honour to present the following as its

FOURTH REPORT

Your Committee has considered the following bills and has agreed to report them without amendment:

Bill No. S-10, An Act to amend the Loan Companies Act.

Bill No. S-11, An Act to amend the Trust Companies Act.

A copy of the minutes of proceedings and evidence relating to the above is approved hereto.

Respectfully submitted,

C. A. CATHERS,
Chairman.

MINUTES OF PROCEEDINGS

House of Commons, Room 268,

TUESDAY, August 19, 1958.

The Standing Committee on Banking and Commerce met at 9:30 o'clock a.m. The Chairman, Mr. C. A. Cathers, presided.

Members present: Messrs. Benidickson, Cathers, Deschambault, Flynn, Fraser, Howard, Jones, Keays, Lockyer, Martel, McIlraith, More, Morris, Pallett, Pascoe, Regier, Robichaud, Rynard, Southam, Tassé, Thomas, Vivian.

In attendance: The Honourable Donald Fleming, Minister of Finance. Mr. K. R. MacGregor, Superintendent of Insurance. Also, Mr. C. F. Mackenzie, General Manager, Canada Permanent Mortgage Corporation, Mr. H. E. Langford, Managing Director, Chartered Trust Company, and Mr. Jules E. Fortin, Secretary-Treasurer, The Dominion Mortgage and Investments Association.

On motion of Mr. Fraser, seconded by Mr. Morris,

Ordered:—That pursuant to the Order of Reference of Thursday, June 19, 1958, the Committee print, from day to day, 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence relating to the deliberations of the Committee on Bill S-10 and Bill S-11.

The Committee considered the following bills:

S-10, An Act to amend the Loan Companies Act.

S-11, An Act to amend the Trust Companies Act.

Mr. Fleming made a brief statement to the Committee, and Mr. MacGregor was called and questioned.

The Committee first took into consideration Bill S-11, An Act to amend the Trust Companies Act.

Clauses 1 to 15 inclusive of the said bill were severally considered and agreed to. The Preamble and Title of the said bill were also agreed to and the bill ordered to be reported to the House without amendment.

The Committee then considered Bill S-10, An Act to amend the Loan Companies Act.

Clauses 1 to 15 inclusive were severally considered and agreed to. The Preamble and Title of the said bill were also agreed to and the bill ordered to be reported to the House without amendment.

At the conclusion of the proceedings the Chairman thanked Mr. MacGregor for his valuable assistance to the work of the Committee.

At 11:00 o'clock a.m. the Committee adjourned to the call of the Chair.

Antoine Chasse,
Clerk of the Committee.

EVIDENCE

TUESDAY, August 19, 1958.
9:30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum; we will come to order.

Mr. Fleming will be here with us for a few minutes and I am going to ask him to introduce the bill. However, before we commence, I should say we have with us Mr. MacGregor of the Department of Insurance on my left, Mr. Jules Fortin of The Dominion Mortgage and Investments Association; Mr. H. E. Langford, General Manager and Managing Director of the Chartered Trust Company and Mr. C. F. Mackenzie, General Manager of the Canada Permanent Trust Company. They are here to answer any questions that we might have. Now, I am going to call upon the minister to give us a brief explanation of the two bills. Have you any preference which one we take first?

Hon. Donald F. FLEMING (*Minister of Finance*): No.

The CHAIRMAN: The two are fairly well interlocking.

Mr. FLEMING (*Eglinton*): Thank you, Mr. Chairman.

Happily, it will be very brief.

In the house in the debate on second reading I made a statement reviewing the purposes and features of these two bills and I think I can add nothing useful this morning. The two bills are parallel; indeed, their features are largely the same. There are four purposes and effects to each of the bills; and I think with that, Mr. Chairman, if you wish to hear Mr. MacGregor dealing in detail with the four items in each bill, I need say no more,—unless there are any questions which members would wish specifically to address to me rather than to Mr. MacGregor.

The CHAIRMAN: We will call upon Mr. MacGregor to outline what these two bills have for us.

Mr. K. R. MACGREGOR (*Superintendent, Department of Insurance*): Mr. Chairman, Mr. Minister, honourable members: As the minister pointed out upon second reading of these bills, although there are several clauses in each bill, there are really only four points of any significance. The other clauses are in the main incidental and arise because of cross references to some one or more of these four points in other sections of the acts.

I am in the hands of the committee as to the procedure that you wish me to follow. I shall be glad to go through the bill clause by clause in numerical order or, if you wish, I shall deal with each of the four main points and when so doing mention the other clauses that are related to each point.

Mr. FLEMING (*Eglinton*): Might I make a suggestion, Mr. Chairman. I think the points arise fairly logically and if the sections were called one by one—I think for instance that the first several sections lend themselves to treatment under one point—if that meets with the approval of the committee.

The CHAIRMAN: Yes, I think that would be the best way. Let us start off and go through them.

Mr. MACGREGOR: I would suggest then that the committee might look at Bill S-11, first, being a bill to amend the Trust Companies Act.

I may say that the clauses in Bill S-10 are almost identical with those in Bill S-11. There are only two small differences and I shall mention them as we go through each bill.

Clauses 1 and 2 agreed to.

On clause 3—model bill.

Mr. MacGregor: Clause 3 stems from a proposed change in the procedure for filing annual statements with the government. The main clauses relating to this proposed change are 9, 11 and 15. Clause 13 is incidental. When the Trust Companies Act was first passed in 1914 there was no provision for supervision, but there was a requirement in the act that each trust company must file financial statements annually with the minister. Consequenly, ever since 1914 the general procedure required to be followed in reference to the filing of annual statements was to send it to the minister. In 1920 the Trust Companies Act and the Loan Companies Act were each amended to require the Superintendent of Insurance to inspect Dominion trust and loan companies annually. However, there was no change made at that time in the requirements for filing annual statements. There are, however, penalties imposed for the late filings of those statements. At present the penalty is $20 per day; and I may say that in practice these penalties are strictly enforced. As an administrative convenience it would be simpler if these annual financial statements were required to be filed in the Department of Insurance rather than with the minister. At the present time they are sent directly to him and are then relayed to the department. We have had a good deal of experience in the department in the filing of annual statements. We supervise more than 400 insurance companies, and the procedure under the Insurance Act is to require the companies to file their statements in the department.

The proposed change in this respect, therefore, in each of these bills, is to adopt the same procedure for filing financial statements as respects loan and trust companies as has obtained for a great many years in the case of insurance companies.

By Mr. Pallett:

Q. You are discussing section 11?—A. Clauses 9 and 11 are the main clauses relating to this proposed change. Clause 9, if I may skip ahead, mentions a report that the auditors must file. There are in fact two reports required to be filed annually at the present time. The main financial statement is compiled and filed by the company itself and the main clause relating to that statement is clause 11. In addition, however, the company's auditor must file a report at present with the minister in the same way as the annual statement is filed. The auditor's report is referred to in clause 9.

The proposed change, therefore, is that both the auditor's report referred to in clause 9 and the financial statement prepared by the company, which is referred to in clause 11, will hereafter be filed in the department rather than with the minister.

Perhaps, before going back to clause 3, I might make an additional comment concerning these financial statements. Again, when each of these acts was passed in 1914, the form of the financial statement to be filed by the company was set forth in detail in a schedule to the act. It still appears there in schedule "B". However, there has always been a section in each act authorizing and empowering the minister to change that form as he might think desirable, either in respect of a particular company or in respect of companies generally, so as to elicit additional desirable information.

I may say that over the years the form of the annual statement as it appears in schedule "B" to each act has in fact been changed many times to the point where it now bears very little resemblance to the form in schedule "B". We have found from experience in supervising several hundred insurance companies that it is necessary to revise the form of annual statements from time to time, and the procedure adopted in the Insurance Act for a very long

time has been simply to authorize the minister to determine the form and to make changes from time to time as he might think fit and desirable.

Consequently, it is now being proposed in this bill that the same procedure be adopted in respect to the determination of the form of the annual statement. The same procedure would be adopted for trust and loan companies as for insurance companies. In other words, the obsolete form as it now appears in schedule "B" would be deleted from the act and clause 11 would authorize the minister to determine the nature of the form of statement from time to time.

Mr. FLEMING (*Eglinton*): May I interrupt, Mr. Chairman, to ask you to excuse me. There is a cabinet meeting going on now and I do not think I am serving any very useful purpose here this morning. If you could excuse me, Mr. Chairman.

Mr. FRASER: We like to see you here.

Mr. FLEMING (*Eglinton*): I like to be here.

The WITNESS: I apologize for the length of the explanation in reference to clause 3, which is incidental.

Looking at clause 3, it will be noticed that the underlined words are "the schedule". All that is being done in clause 3 is to delete the reference to schedule "A" and refer instead simply to the schedule. At the present time schedule "A" sets forth a model bill for the incorporation of a new company; schedule "B" sets forth the form of the annual statement. If schedule "B" is repealed as now proposed in reference to the form of the annual statement, there will only be one schedule left setting forth the model bill and that is recognized in clause 3. The new wording is "the schedule" instead of "schedule "A".

Clause 3 agreed to.

On clause 4—General meeting.

By Mr. Benidickson:

Q. On clause 4 I am a little surprised to see the elimination of any minimum capital. As I recall Mr. MacGregor's testimony in connection with the insurance companies' incorporation, while there might be a minimum I think he has always urged the committee that there should be more than the minimum in not only capital but in subscribed capital. While the minimum, I realize, in the existing acts would not be adequate to satisfy very many members of the committee at this time, it was enough to start a business today, and I am surprised to see the complete elimination of it.—A. Clauses 4 and 5 relate to the initial capital required for the incorporation of a new trust company. Clause 4 relates to the minimum amount of capital required to be subscribed and paid before the provisional directors may call the first general meeting of the shareholders; in other words, the first organizational meeting.

Clause 5 relates to the minimum amount of capital that must be subscribed and paid before the company may commence business. As Mr. Benidickson has pointed out, at the present time there are minima amounts prescribed in the act for this purpose. These minima amounts were inserted in the act originally in 1914, and they have not been changed since then.

Under the Trust Companies Act, as it stands at present, there must be at least $150,000 of capital subscribed, and at least $50,000 paid before the provisional directors may call the first general meeting of the shareholders.

In the case of loan companies, the minimum subscribed is a little less; it is $100,000. But the minimum paid is the same as for trust companies, namely, $50,000. Before either a new trust company or loan company may commence business the present acts require that at least $250,000 capital must be subscribed, and at least $100,000 paid.

Naturally, these amounts having been set in 1914 are rather out of date under present day conditions. It is almost unthinkable that a new trust company should start business these days with a subscribed capital of only $250,000 and a paid capital of only $100,000.

I might say that there are not many new trust or loan companies being incorporated these days. There has been only one loan company incorporated by parliament in the last 25 years. That company was the Gillespie Mortgage Corporation, in 1955.

The original purpose of loan companies was, of course, to provide mortgage money, and they obtained their funds by borrowing through the issuance of debentures, sometimes, years ago, in the United Kingdom, but now in Canada only. Loan companies also accept money on deposit, and these funds are then loaned to a substantial degree on the security of real property. Of course, nowadays, there are many other financial institutions providing mortgage money, too,—more particularly the life insurance companies and the banks.

The Gillespie Mortgage Corporation, being the recently incorporated company I referred to a moment ago, was incorporated in 1955 for a rather special purpose. It was, in fact, incorporated mainly to operate as a mortgage correspondent, as it is called. In the United States it is a quite common practice for life insurance companies to get some other organization to process the mortgage loan and, after it is all arranged and the money advanced, to purchase the loan from that other organization, which is called a mortgage correspondent.

I do not want to get off on a long path about this one particular company. The point I wish to make is that the only loan company incorporated in the last 25 years was incorporated for that particular purpose, to act as a mortgage correspondent mainly for some United States life insurance companies which desired to lend on the security of real property in Canada, but did not want to set up a mortgage organization for that purpose in Canada.

In the trust company field there have been only four new trust companies incorporated by parliament in the last 25 years; and only one of those four companies is presently in business.

Two companies were incorporated in 1945, the Ottawa Valley Trust Company and the Trust Company of America. Dealing with those two first which were incorporated in the same year, the Trust Company of America was merged with the Administration and Trust Company in 1950, and the Ottawa Valley Trust Company was merged with the Toronto General Trusts Corporation in 1952.

In 1956 a third new trust company was incorporated, the Interprovincial Trust Company, and it has not yet commenced business. It is still in the process of organization. More recently still, the Investors Trust Company was incorporated at the last last session of parliament, in 1957, and it has just commenced business. The latter company is associated with the Investors Syndicate.

I just mention these facts to draw attention to the relatively few new companies of these kinds that are being incorporated in recent times. It is a very difficult task to start a trust company, and the trend in recent years has, I think it can accurately be stated, been for the smaller trust companies to experience difficulty in making sufficient earnings to "butter their bread", so to speak. Many of the smaller trust companies, provincial and dominion, have been taken over by larger trust companies in recent years.

Getting back now to the capital required to start a new company, my personal opinion is that a subscribed and paid capital of at least $1 million is required and is appropriate for most new trust companies starting business today. There are, however, always special circumstances where it might be

desired to incorporate a trust company for a particular purpose, and a smaller capital would be appropriate and could be justified. So also in the case of loan companies. A company of the kind I referred to a moment ago, the Gillespie Mortgage Corporation, incorporated for its particular purpose, to act as a mortgage correspondent, does not need as much capital. It obtains its funds in the main from the banks, makes the mortgage loans, and as soon as they are made and finalized they are sold to insurance companies. Thus this company's funds are always revolving. It does not need much capital.

Now, it may seem that another course might have been followed, instead of removing all these minima amounts of capital which have now become obsolete. Another course might have been to double them, or treble them, or quadruple them. The difficulty in following that course is that it results in a very inflexible situation. If one prescribes unduly large amounts of capital, then it virtually precludes the incorporation of a company for a particular purpose where a smaller amount might be quite appropriate and quite justifiable, and in fact might be desirable.

On the other hand, if one simply doubled the present minima amounts, then those prescribed amounts would tend to become the standard, and persons desiring to incorporate a company would point to the amounts in the act and with justification say that apparently they are all that are expected, and that they should be enough.

In the insurance field where there have been many new companies incorporated, more particularly fire and casualty companies, no minimal amounts have been prescribed in the acts.

The amounts are left to be prescribed in each company's special act of incorporation.

Of course insurance, loan and trust companies can only be incorporated by special act of parliament; so that in every case the sponsors must come to parliament and describe their situation and make their case, so to speak.

Thus, in no sense, would the elimination of these minimal amounts take away from parliament the right or duty to scrutinize and fix or determine the minimal amounts of capital.

There are so few of these companies being incorporated now, that it seems desirable that the minimal amounts in each case should be set out in the special act in the full light of the circumstances of each case. Consequently the proposal in the bill is to delete the obsolete amounts which were originally prescribed in 1914, and leave it to each special act to specify the minimal amount which must be subscribed and the minimum to be paid before the first organizational meeting is held, and also before the company may commence business.

By Mr. Regier:

Q. May I ask how many trust companies and how many loan companies are at the present time under your supervision? I realize most of them are provincial.—A. Both loan and trust companies may of course be incorporated either by parliament or by any of the provinces.

At the present time there are five loan companies licenced under the Loan Companies Act.

Q. Would you be good enough to give us their names?—A. Yes sir. I thing it would be best to give them to you in alphabetical order, lest I give offence to any particular company.

1. Canada Permanent Mortgage Corporation, head office, Toronto, Ontario.

2. Eastern Canada Savings and Loan Company, head office, Halifax, Nova Scotia.

3. Gillespie Mortgage Corporation, head office, Vancouver, B.C.
4. The Huron and Erie Mortgage Corporation, head office, London, Ontario.
5. International Loan Company, head office, Winnipeg, Manitoba.

Then, with respect to trust companies, at the present time there are eleven licensed under the Trust Companies Act.

Incidentally, I noticed upon second reading of the bill that some question was raised whether the number is ten or eleven. I can readily explain that difference.

The eleven which are presently licensed are as follows:

1. The Canada Permanent Trust Company, head office, Toronto, Ontario.
2. The Canada Trust Company, head office, London, Ontario.
3. Chartered Trust Company, head office, Toronto, Ontario.
4. Commercial Trust Company Limited, head office, Montreal, Quebec.
5. The Eastern Trust Company, head office, Halifax, Nova Scotia.
6. Guaranty Trust Company of Canada, head office, Toronto, Ontario.
7. Investors Trust Company, head office, Winnipeg, Manitoba.
8. The Premier Trust Company, head office, Toronto, Ontario.
9. Prudential Trust Company Limited, head office, Montreal, P.Q.
10. The Sterling Trusts Corporation, head office, Toronto, Ontario.
11. The Western Trust Company, head office, Winnipeg, Manitoba.

The explanation for the apparent discrepancy between the number 10 and the number 11 mentioned stems from the status of the last-mentioned company, namely, the Western Trust Company.

Earlier this year the stock of the Western Trust Company was acquired by the Guaranty Trust Company so that at the moment the Western Trust Company is a wholly owned subsidiary of the Guaranty Trust Company of Canada.

Under the Trust Companies Act the Western Trust Company can only remain in that status as a subsidiary for a period not exceeding two years, unless the treasury board extends the period.

So, at or before the end of two years, the purchasing company, in this case the Guaranty Trust Company must, by agreement, take over all of the assets and all of the liabilities of the Western Trust Company, So, briefly, the Western Trust Company is now in the process of being merged with the Guaranty Trust Company.

Q. At whose request was this amendment made, and has the superintendent of insurance had cases of applications made to him on the assumption that the provisions would be all that could be required, and he has had to advise against the application? In other words, has the existence of the act and the clause of the act as it now stands, proved to be an embarrassment to him in the past number of years, or why is it being done?—A. I suppose it may appear, because of the relatively small number of companies being incorporated, that it cannot be a very important point. I may say, however, that we have had many discussions with persons proposing to start a trust company.

I am afraid that many of them, lacking experience in the trust field, have not appreciated the difficulties, and have not appreciated the need for much more substantial capital than is presently required in the act.

It is correct to say that we have discouraged several persons from starting companies. It has been an embarrassment that, at present, the act requires a paid capital of only $100,000 since we have felt, rightly or wrongly, that the minimum capital should be $1 million in most cases.

I might go back a little further still and say that in 1945, when two of these four trust companies were incorporated, the Ottawa Valley Trust Company and the Trust Company of America, the minimum subscribed capital and the paid capital in each of these cases was nearly $500,000.

In other words, they did put up more than the minimum required by the act; but each of these companies found its path too difficult to continue in business; and as I mentioned, each was taken over by another larger and better established company.

More recently the two newest trust companies, the Investors Trust Company and the Interprovincial Trust Company, each put up $1 million capital.

I think that each might have started with less, had it not been for the discussions that we had with the interested parties.

We, in the department, felt that the minimum capital in each of these cases should be $1 million, and the sponsors agreed to apply for a bill with that minimum in it, notwithstanding the very much lower minimum mentioned in the act.

In answer to your question, Mr. Regier, it is correct to say that the very small minimum presently required has been an embarrassment.

The CHAIRMAN: Clauses 4 and 5 agreed to. You have already covered Clause 6.

The WITNESS: Clause 6 is incidental to this amendment.

The CHAIRMAN: Clause 7 agreed to.

By Mr. Fraser:

Q. There are a number of these companies whose shares have a par value of less than $100 at the present time?—A. Yes sir that is correct; but there is a section in each act that authorizes the splitting of shares.

Q. Yes?—A. Subject to appropriate authorization at a special general meeting of the company.

The practice has been to incorporate companies with shares having a par value of $100. But it is true that some of the companies incorporated many years ago, have, under the authority of that section of the general act, reduced the par value of their shares to $20 or $10.

Q. And they did not have to come back here?—A. That is correct. There is authority contained in the general act to do it.

The CHAIRMAN: Clauses 6, 7 and 8 agreed to. We have already covered clause 9. Clause 9 agreed to. Clause 10?

By Mr. Benidickson:

Q. This is the most important section of the bill. May we hear something about it? I am particularly interested to get information as to how many of these companies now have borrowings very near to ten times their capital reserves?—A. Clause 10 relates to the socalled borrowing powers of these companies.

Under each act the expression "borrowed money" has a rather particular meaning. The expression includes not only money borrowed from the banks, for example, or through a bank overdraft; it also includes, in the case of loan companies, by definition, monies accepted from the public by way of deposits, and also money borrowed from the public through the issuance of debentures.

In the case of trust companies, the expression "borrowed money" by definition includes deposits accepted from the public and monies accepted in trust from the public, the repayment of which is guaranteed by the trust company.

Trust companies have three main kinds of funds: they have their own funds, represented by their paid capital, their surplus, and their reserves; and they have unguaranteed trust monies, represented by estates and trusts of all kinds. In this field, the company administers the trust. It does not guarante that the trust moneys will remain at 100 per cent of their initial value. The company follows the directions of the trust. These are called unguaranteed trust monies, viewed from the point of view of the trust company.

The third main kind of funds are what are called guaranteed trust monies, being monies accepted in trust by way of deposits or for investment; but the trust company guarantees the repayment of the principal or of the principal and interest as the case may be, so that the person putting up such funds is assured that he will get back 100 cents on the dollar in every case.

The CHAIRMAN: Your question was what companies, Mr. Benidickson?

By Mr. Benidickson:

Q. Yes. How much utilization by our federal companies of the ten times rule is now being made?—A. To refer briefly to this third class, I mentioned that these guaranteed trust monies, comprise deposits, monies accepted in trust, covered by guaranteed investment certificates issued by trust companies, and debentures issued by loan companies.

Since the repayment of these monies is guaranteed, it is not unnatural that some limit has been placed in each of these acts on the volume of this kind of monies that the companies may accept.

I would like to clarify one point, however. It may seem at first glance, as if the rule in this respect in the act may authorize a company to borrow money subject to these limits and perhaps spend the money. There is no situation of that kind at all in this field. Where a trust company accepts deposits or accepts money in trust for investment and guarantees repayment of it, such moneys when taken by the trust company must be kept separate from all other moneys, separate from its own funds and unguaranteed trust moneys; such moneys must be invested in the ways, and only in the ways, in which the act authorizes the company to invest them, mainly in first grade bonds or first mortgages. So this rule in reference to the so-called borrowing powers of a company may be said to define the capacity of the company to accept moneys in this way, and ensures that its own funds sitting beside them shall provide an adequate safety margin, an additional safety margin, over and above the investments, that those funds themselves give rise to.

In the Loan Companies Act as originally passed in 1914, companies were empowered to accept moneys on deposit or to issue debentures in the aggregate not exceeding four times their unimpaired capital and reserves. That limit was raised to six times in 1927 and to ten times in 1948. In the case of trust companies the original limit was five times in 1914, seven times in 1931 and ten times in 1947.

The present proposal is to enlarge their capacity to accept moneys of this kind so that in the aggregate such moneys do not exceed twelve-and-one-half times the company's unimpaired paid capital and reserves.

Again I apologize for the length of this explanation before answering your specific question as to how many companies are at present near the existing borrowing limit of ten times the paid up capital and reserves. There are two trust companies that have been pretty close to the ten times limit in the last year or two, the Guaranty Trust Company of Canada and The Eastern Trust Company. As a matter of fact, each of these companies at the end of 1957 slightly exceeded the ten times limit—not willfully, but they got into that

position because of the decline in the market values of their securities in 1957. Because of that decline, they had to put up an investment reserve. Consequently, their unimpaired and free reserve were reduced and so also their borrowing limits which are related directly to their paid up capital and free reserves. In the case of each of these two companies we naturally discussed their position with them and when their licences were renewed on April 1, they were each in a position where their total borrowed moneys were less than ten times their paid capital and reserves.

By Mr. Benidickson:

Q. Were these investments in substantial part federal or provincial bonds?—A. To a substantial extent, yes. It is a matter of opinion how large the capacity of these companies should be to accept moneys on deposit and to guarantee the repayment of moneys in this way, or to issue debentures in the case of loan companies. At the present time the ten times rule insures that the company's capital and free reserves will always be at least 10 per cent of the aggregate volume of this kind of money. The proposed extension to twelve-and-a-half times would mean that hereafter every company would have to have in the form of unimpaired paid capital and free serve at least 8 per cent of the total volume of deposits and borrowed moneys of other kinds.

In the field of provincial companies—and some of the largest companies are provincially incorporated—there is no limit in the province of Quebec, although in the main I believe the Quebec provincial companies have by practice kept their borrowed money within about ten times the paid capital and reserves. In Ontario there is a limit of ten times in reference to loan companies but no limit in reference to Ontario trust companies.

Q. Are both the Royal Trust Company and the Montreal Trust Company incorporated in Quebec?—A. Yes.

The CHAIRMAN: Will clause 10 carry?

By Mr. Regier:

Q. No. You mentioned two companies that had in part of the year at least exceeded the limit. I realize when they get near the maximum they cannot regulate as accurately as all that. I have particular reference now to the Guaranty Trust Company, as I happen to know a little of its operations. They may have gone overboard a bit and offered too high an interest rate and thereby obtained more money than they expected to obtain on deposit, found themselves in this position and had to revise in order to accept further deposits on certain of their offerings. Would that be part of the cause, Mr. MacGregor?—A. I could not say that was the main cause; I do not believe it was. The main cause of that company exceeding the ten times limit was the rapid decline in the market values of securities. Of course, it is a matter of company policy as to the kind of deposits they may wish to accept. Some deposits in large amounts may be very temporary. You might call it "hot" money in one sense—in the sense that the depositor might wish to withdraw it after a very short time.

I may say that under the act all deposits are deemed to have been received so that at least thirty days' notice is required.

Q. How high an interest rate did Guaranty Trust Company offer at one time? In 1957, was it 4½ per cent?—A. On its deposits or guaranteed investment certificates?

Q. On its 5-year deposit program?—A. I would guess 4-¾, but I cannot remember accurately. If you wish, I can obtain the figure for you.

Q. Do you think it was a bit high and would cause a flow of money towards that company?—A. It would naturally do so if the rate offered were above that offered by its competitors. It is almost bound to, but a company can readily regulate the amount of money it wishes to take by changing its interest rate. I do not think that the Guaranty Trust Company offered a higher rate than some other trust companies for similar kinds of money.

Q. I realize that. What I had in mind was that the Guaranty Trust Company has almost obtained the reputation of a chartered bank in regard to reliability, and therefore to compare it with some smaller less known trust companies is hardly fair. You almost have to begin to compare it with the regular institution. The other point I wish to raise—I take it from this it is a clear indication that the capital base of Canadian trust companies and/or the number of companies in existence has not kept pace with the expanding population and the expanding level of our economy, and that has forced upon us from time to time the need to revise this ratio. Is that not a fair assumption to make?—A. I think the trend in recent years has been for the larger trust companies to grow larger and for the smaller ones to find it increasingly difficult to operate at a satisfactory profit. I would also think or say that these extensions in the so-called borrowing capacity of the companies have been made in the light of their history and experience too. Much has been learned, even since 1914, about the manner in which they conduct their business in these respects. In the case of banks, if one examines the return of the chartered banks to the Minister of Finance, it will be noticed there that their borrowings run up to perhaps eighteen, nineteen or twenty times their paid capital and reserves in the aggregate, on the average, as compared with the proposed twelve-and-a-half times here. There is, however, no statutory limit applicable to the banks.

Q. What I had in mind particularly was the reason or the need. Why does this need arise for the changes? Is it not a fact that our economy and our population have grown and the base of our trust companies has not grown in accordance with that and, therefore, as the economy expands there is a need?—A. I think that is correct. These companies are encouraging savings. They are acting as deposit banks in that respect.

Q. Now, in that case would you agree that it would be a very healthy thing if these companies broadened their capital base and increased their capitalization rather than to continue building a larger superstructure upon a narrow capital base. To use an example, one insurance company which was incorporated many years ago—and I believe all the capital investment ever was $68,000—and yet that board of directors which, in the main, are still the owners of its original $16,000, rule over a dominion of $7 million of the people's money, which I think even Mr. MacGregor will admit is far too narrow an equity. Would not ways and means to broaden the base be preferable to continually revising this figure?—A. I would say that both have been done. Many of these trust companies have enlarged their capital structure in order to enlarge their borrowing capacity. However, it is a matter of opinion how far the borrowing capacity of these companies should be permitted to expand. My personal opinion is that this is about as far as it is desirable to go. It may be that conditions in the future will indicate otherwise, but I doubt it. The present proposal ensures that capital and reserves will always constitute 8 per cent of this kind of money; or looking at it another way, it ensures that the capital and surplus and all guaranteed funds could shrink by one over thirteen-and-a-half, or by 7½ per cent, and the depositors and others would still be assured one hundred cents on the dollar. It is, of course, a matter of judgement how wide that protective margin should be.

We have seen declines in the market values of securities in recent years of five or six points. Of course, these companies do not ordinarily invest all their funds in bonds and stocks; some invest in real estate mortgages—and the market value of mortgages does not decline like the market value of bonds and stocks. One may counter that mortgages are less liquid than bonds and stocks. That is true, but under present conditions mortgages are much more liquid than they used to be. They are practically all on an amortized basis whereby they are repaid monthly, so that mortgage funds are revolving at all times; there is substantial money coming in as well as going out. In addition, there is a market for mortgages now through Central Mortgage and otherwise that did not exist ten or fifteen years ago.

It is a matter of judgment whether the limit should be 12½ times, 15 times or 10 times. My personal opinion is that 12½ times is justifiable and is safe, but at the present time I think it ought not to go higher.

Q. Mr. Chairman, I read this in another place, but is the report in Hansard correct, Mr. MacGregor, that you desire to retain the 10 times ratio, the companies ask for 15 times, and so you arrived at the compromise of 12½?—A. No, that is not quite correct. I noticed that statement.

Q. Yes, it appeared in *Hansard*.—A. The question put to me and to which I think this answer was intended to relate was, which is safer the present 10 times or the proposed 12½? Naturally I said that 10 times is safer and the original 4 times rule was safer still. It is true, however, that the companies asked for an extension of the limit to 15 times.

Q. Have you ever recommended to any of these companies that they increase their share capital?—A. Oh yes, sir.

Q. Have any of these companies ever failed to implement your recommendation in that regard?—A. Well, I should not like to be misunderstood on that point. We have not had to suggest an increase in capitalization in order to safeguard the position of the depositors. We have had to say to some companies: "If you want to go on extending your deposit business and guaranteed investment certificate business, you will have to get more capital", as that is the only way you can do it under the Act. We have suggested an increase and companies have sometimes accepted it; more frequently, it was done on their own because they desired to expand their business and that is the only way they can do so. Increases have taken place in several instances, including the Guaranty Trust Company of Canada, the Chartered Trust Company and the Eastern Trust Company.

Q. In other words, it has two purposes—it protects the company in case of sudden decline in the bond market—A. It protects the depositors particularly.

Q. —and also it allows for expansion of their activities?—A. Yes.

Q. And the companies prefer this method of spreading out their share base. I can understand their reluctance to spread their share base because there is quite an accumulation of these shares among certain people, and those who own them do not like to invite other people to come in and share in what money they feel their own original investment has earned?—A. I think that is determined largely by the economic conditions existing at the time. If a new issue of shares were made, they would be offered on a pro rata basis to the existing shareholders. That would be the only fair way to do it.

Mr. Benidickson: The market looks at the former price and the present value.

By Mr. Pallett:

Q. Mr. Benidickson mentioned a couple of Quebec trust companies. Have you any information there of the shares outstanding against the reserves?—

A. These figures are approximate, but I believe they are quite accurate—the Royal Trust Company at the end of 1957 had total borrowed moneys of $80 million and they had paid capital, surplus and reserves of $11,400,000.

In the case of the Montreal Trust Company their total borrowed money was $70 million, and their capital and reserves were $10,400,000.

By Mr. Benidickson:

Q. Give us the figures in respect of the larger ones in Ontario, such as the National Trust Company and the Toronto General Trust Company?—A. National Trust in Ontario had borrowings of $65 million, paid capital and reserves of $7,000,000.

The Toronto General Trust Corporation had total borrowings of $58 million, paid capital and reserves of $6,800,000.

I would, however, make a comment in relation to those figures. Provincial trust companies in Ontario and Quebec, which embrace the four you have asked about, all publish their financial statements on the basis of book or amortized values for all bonds. Consequently I would say off-hand that the figures I have given for paid capital and free reserves should probably be reduced to make them comparable with the figures published for dominion companies. It seems likely that at the end of 1957 additional reserves would have been required to bring the book values of the bonds of these provincial companies down to their market values, and that has been done in the case of dominion companies, but I do not think it has been done in the case of provincial companies.

Q. And they use amortized values for stock?—A. No, just for bonds.

Q. Just government bonds?—A. No, all bonds not in default—corporate bonds, municipal bonds, and so on.

Clauses 10 and 11 agreed to.

On clause 12—Definitions.

By Mr. Regier:

Q. This is the amortized value rather than market value?—A. That is correct, sir.

Q. Could we have an explanation of this?—A. Clause 12 relates to the maximum value at which bonds may be carried in the balance sheet of a loan or trust company.

At the present time the only reference to the basis of valuation for bonds and stocks in the act is in the obsolete schedule B. The act is silent on how bonds and stocks shall be valued but in the schedule there is a line at the foot of "assets" which says "not exceeding the market value", or words to that effect. Consequently, up to date the practice of the companies has been in the first instance to compile their balance sheets carrying their bonds and stocks in at their book values. Technically, under the act the schedule implies that they shall be carried at values which in the aggregate do not exceed their aggregate market values. Sometimes the aggregate market values may be larger than the aggregate book values; sometimes they may be smaller. As a conservative practice—I did not mean that in any political sense—

By Mr. Pallett:

Q. That is the only way to have it. —A. As a conservative practice we have encouraged the companies where the aggregate market value exceeds the aggregate book value to ignore the excess, but where the aggregate market value is lower than the aggregate book value we have required them to put up a reserve in the liabilities to cover the deficiency.

The amortized value of a bond may briefly be described as its cost price adjusted from year to year so as to reach par value at maturity. Sometimes the amortized value is referred to as the investment value because if a company buys a bond at 102 or at 95 and holds it until maturity it will of course, ordinarily get 100 cents on the dollar at maturity, and until that time the bond yields a certain effective rate of interest on the original investment.

These companies are not, in the main, active market traders. They receive moneys on deposit and take such moneys and invest them mainly in bonds or loan them on real estate mortgages. They are not active traders and in the ordinary course the bonds are held until maturity, at which time they will receive 100 cents on the dollar if the bond does not go in default, or if they are not required to liquidate it before the maturity date.

If any one must sell a bond, certainly its market value is its realizable value, but these companies ordinarily do not have to sell their bonds unless the company is in a shaky financial condition and has to be taken over by another company. If it were in that position, market values alone would be the determining factor, because in our experience when one company has to be taken over by another company the purchasing company will have regard for the existing market value and nothing else.

In the case of fire and casualty insurance companies where the nature of the business involves substantial catastrophe hazards and there are wide fluctuations in their experience, those companies may have to sell their securities to pay their claims and, of course, market values are the only values that one could justify for balance sheet purposes.

By Mr. Lockyer:

Q. Do we have much experience with that kind of casualties in the companies?—A. We have about 350 fire and casualty companies registered with the department at the present time.

Q. But I mean, are these companies not entirely stable and sound in their managements?—A. The scope and nature of the liabilities of fire and casualty companies are essentially different, of course, from the nature of the liabilities of loan and trust companies. The liabilities of the former, that is, fire and casualty companies, are subject to much wider fluctuations. The liabilities of trust and loan companies are really quite stable, being essentially debt, like debentures, deposit money, etc.

Q. That is exactly what I mean. These companies you have are well managed companies?—A. That is so, sir. It is the nature of the liabilities that justifies the application of the theory of amortized values.

In the case of, say, life insurance companies which have long-term liabilities, their business is very stable, and to a substantial extent that applies also to loan and trust companies in respect of the nature of their liabilities. As far as the amount of the liability is concerned, it is just debt, and the only hazard, as I see it, in the case of loan and trust companies is the hazard of the demands that might be made upon the companies by depositors to withdraw their money. The risk there is that if loan or trust companies were subject to a run, for example,—depositors wanting all their money, then it is conceivable that the company might have to sell its bonds in order to get the money to pay off its depositors.

By Mr. Fraser:

Q. But then, Mr. Chairman, would not they have that 30 days' grace, because most of the trust companies have that?—A. That is right in the act, Mr. Fraser, that is correct.

By Mr. Lockyer:

Q. But what I am trying to point out is that these companies are so stable and well managed there is not likely to be a lack of confidence and, consequently, a run?—A. I believe that is true. Experience has shown they have not had to meet any large runs of that kind. The theory in clause 12, or in the change proposed by clause 12, is that these securities will be held to maturity and will be paid off at 100 cents on the dollar, that, in the case of government bonds, dominion or provincial, there is no risk of any intrinsic depreciation as there might be in the case of a mortgage bond, or certain other bonds. I might say that over the years we in the department perhaps are naturally inclined to the conservative side of things. Our difficulties arise when companies get into trouble, and our job is to keep them out of trouble, or to do what we can in that respect.

The CHAIRMAN: Does clause 12 carry?

By Mr. Morris:

Q. When you speak of market value and make reference in this new section to discretionary power to set that within 60 days, could you tell us what theoretical circumstances you have in mind in suggesting that—in what theoretical circumstances you may require 60 days?—A. That reference, sir, relates to the determination of market value, and it is copied, I might say, from the Insurance Act.

It is necessary for the department every year to publish a book on market values of all securities held by insurance, loan and trust companies for use by the companies in compiling their statements as at December 31.

Now, naturally, the companies desire to get that book as soon after December 31 as they can because until they get it they cannot complete their annual statements, and yet they are required to file them under penalty for delay at least by March 1.

The only real reason for the 60-day provision is to authorize the department to use values as at any date not earlier than November 1, simply as a practical measure to enable us to get on with the publication of the book for use at the end of the year.

If there were substantial changes in market values between November 1 and the end of the year, we might use a later date. In the past we have generally used November 1 in preparing the book, but I might say that last year, when values were changing very quickly in the early weeks of November, we decided to wait until November 22. We could not postpone it any longer and still get the book out in time. In any case, by that time the market had pretty well stabilized and flattened out.

I would like to say one further word about amortized values. One might ask: what has prompted this particular proposal at this particular time?—why was it not made five years ago or ten years ago?

At the end of 1956 the Bank of Canada for the first time published its own financial statement using amortized values for dominion and provincial bonds; and by order in council at the end of 1956 the schedule in the Bank Act was altered so as to require or at least permit—first to require and then to permit the chartered banks to fill their statements at the end of 1956 so that dominion and provincial bonds would be reflected in the balance sheets at values which in the aggregate did not exceed their amortized values.

A similar order in council was passed in reference to the Quebec Savings Banks at or about the same time, that is, around the end of 1956; and at the spring session of parliament in 1957 when the Quebec Savings Bank Act was being amended in other respects, the schedule in the Act was changed at

that time to confirm what had previously been authorized by order in council, briefly, to authorize this method of valuation for dominion and provincial bonds.

The department of insurance has nothing to do with the practices of the chartered banks, or the Quebec Savings Banks, or the Bank of Canada, but to the extent to which the loan and trust companies are doing a similar kind of business, namely, a deposit type of business, I think it is only reasonable that a similar method of valuation should be permitted to the loan and trust companies with respect to the same kinds of securities. So this proposal has been brought about really by changes in the practices of the Bank of Canada, the chartered banks, and the Quebec Savings Banks within the last year and a half or two years.

Q. When you say dominion and provincial bonds you mean also guaranteed bonds?—A. Yes, but not perpetuals—just redeemable securities. So far as the department of insurance is concerned, we have been market minded for many years. While I believe this is a justifiable change in procedure, and is a reasonable thing to do in the circumstances, our dim approach to things makes us still believe that market values must be very carefully considered at all times, and it is certainly our intention to keep a close eye on the market value position of every company.

I might say too that this section still requires the market value of all bonds, including dominion and provincial, to be shown in every statement even though they may not be carried in the balance sheet.

By Mr. Regier:

Q. I have only one other concern. Mr. MacGregor, will this amendment, coupled with clause 9 or clause 10, make it more difficult for the Minister of Finance and the government to control the monetary policy?—A. No sir, I do not think it will make any difference.

Clause 13, to 15 inclusive agreed to.

The CHAIRMAN: Shall the schedule carry?
Agreed to.

The CHAIRMAN: Shall the Model Bill carry?
Agreed to.

The CHAIRMAN: Shall the title carry?
Agreed to.

The CHAIRMAN: Shall the preamble carry?
Agreed to.

The CHAIRMAN: Shall I report the bill?
Agreed to.

By the Chairman:

Q. Now, Mr. MacGregor, is there any important difference in the other bill?—A. There are no important differences. Each bill has 15 clauses, but they are not identical. In the trust companies bill just considered, clause 2 has no counterpart in the loan companies bill.

In clause 2, if the hon. members would refer back to it again, you will notice there is one word underlined—"calling". The only reason for that amendment was to change the word "description" to "calling" in reference to the provisional directors. "Calling" is the word used in the Loan Companies Act and seems much more appropriate.

In the loan companies bill clause 6 has no counterpart in the trust companies bill. Clause 6 relates to the possible reduction in the capital of a loan company if its capital is impaired, and heretofore the act has said that the

capital must never be reduced below $250,000 because that was the minimum amount specified in the act for a company to commence business.

The proposed amendment would prescribe that in the case of a reduction of capital it must never be less than the amount required by law to commence business, which would be the amount required by the general act if the company was incorporated before this amendment or below the minimum required by the company's special act, if incorporated after this amendment.

The CHAIRMAN: I was going to ask if this bill, the Loan Companies Act, be approved in the same way as the trust companies bill.

Mr. PALLETT: How about calling it by clause? It will only take about 30 seconds, just for the record.

Clauses 1 to 15 inclusive, agreed to.

The CHAIRMAN: And the model bill, shall it carry?
Agreed to.

The CHAIRMAN: Shall the preamble carry?
Agreed to.

The CHAIRMAN: Shall the title carry?
Agreed to.

The CHAIRMAN: Shall I report the bill?
Agreed to.

The CHAIRMAN: Would somebody move regarding the printing of 750 copies in English and 200 copies in French of the minutes of proceedings and business relating to the deliberations of the committee on Bills S-10 and S-11?

Mr. FRASER: I so move.

Mr. MORRIS: Seconded.

By Mr. Morris:

Q. Mr. MacGregor, I do not know the rules now, the bell has not yet gone, and whether you wish to record this. What has been the experience of default under clause 89 of the Trust Companies Act, and clause 97 of the Loan Companies Act? This has to do with the filing of annual reports?—A. Under each act as at present, loan companies and trust companies are required to prepare a statement and forward it to the minister on or before March 1, and if it is not despatched on or before March 1, a penalty of $20 for each day's delay is imposed against them. The determining date is the date of mailing in the case of loan and trust companies which introduces some difficulty; sometimes postmarks are not very clear. In the case of insurance companies, it is the date of receipt in the Department that counts.

The loan and trust companies are very prompt. Some of the insurance companies, more particularly reinsurance companies which do not get their data from the ceding companies early, have sometimes not been able to meet the deadline, but it is a rare occurrence when a loan or trust company is late at all.

The CHAIRMAN: Thank you very much, Mr. MacGregor. We will adjourn.

The committee adjourned.